

TO CONSIDER THE ADMINISTRATION'S PUBLIC BUILDINGS PROPOSAL

HEARING

BEFORE THE

SUBCOMMITTEE ON WATER RESOURCES,
TRANSPORTATION, AND INFRASTRUCTURE

OF THE

COMMITTEE ON

ENVIRONMENT AND PUBLIC WORKS

UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

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CONTENTS

OPENING STATEMENTS

	Page
Chafee, Hon. John H., U.S. Senator from the State of Rhode Island	13
Lieberman, Hon. Joseph I., U.S. Senator from the State of Connecticut	12
Moynihan, Hon. Daniel Patrick, U.S. Senator from the State of New York	1
Warner, Hon. John W., U.S. Senator from the Commonwealth of Virginia	1

WITNESS

Austin, Richard G., Acting Administrator, General Services Administration	3
Written statement	14
Responses to additional questions from:	
Senator Burdick	19
Senator Chafee	20
Senator Warner	29
Federal Real Property Study	32
Peck, Robert, letter to Senator Moynihan	11

TO CONSIDER THE ADMINISTRATION'S PUBLIC BUILDINGS PROPOSAL

FRIDAY, NOVEMBER 3, 1989

U.S. SENATE,
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS,
SUBCOMMITTEE ON WATER RESOURCES,
TRANSPORTATION, AND INFRASTRUCTURE,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:32 a.m., in room 406, Dirksen Senate Office Building, Hon. Daniel Patrick Moynihan (chairman of the subcommittee) presiding.

Present: Senators Moynihan, Lieberman, and Warner.

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, U.S. SENATOR FROM THE STATE OF NEW YORK

Senator MOYNIHAN. A very good morning to our witness and our guests. This is a regular meeting of the Subcommittee on Water Resources, Transportation, and Infrastructure to greet Mr. Richard G. Austin, who is the Acting Administrator of the General Services Administration, and to hear from him on the Public Buildings Proposal, which the Administration has come forward with and which is very interesting indeed to us.

Let me note that, Mr. Austin, you are the Acting Administrator now?

Mr. AUSTIN. Yes, Senator.

Senator MOYNIHAN. Can we look forward to having you with us permanently?

Mr. AUSTIN. My nomination is before the Governmental Affairs Committee.

Senator MOYNIHAN. That is a very pleasing thing to hear. We have worked with you in the past and will continue to do so. You are in the job now and will be confirmed in it presently, I am sure. This gives us an opportunity to learn more about this very important proposal that you have made and to offer some comments on it.

I am happy to see my colleague and friend, the distinguished Senator from Virginia, here to welcome Mr. Austin as well.

OPENING STATEMENT OF HON. JOHN W. WARNER, U.S. SENATOR FROM THE COMMONWEALTH OF VIRGINIA

Senator WARNER. Thank you, Mr. Chairman. I want to thank you personally for rearranging the time of this hearing to convenience me, together with the cooperation of the staff.

I have a statement but I think that it is wise that we proceed in view of the Senate schedule. I support, generally, what the GSA is doing and I commend the Chair and others for allowing this hearing so that we can air out this alternate means of financing, which I think is very valuable.

[Senator Warner's statement follows:]

OPENING STATEMENT OF HON. JOHN W. WARNER, U.S. SENATOR FROM THE
COMMONWEALTH OF VIRGINIA

I want to thank you, Mr. Chairman, for scheduling this hearing at a time when I could attend. If the Senate schedule permits, I am scheduled to leave shortly to travel with the President in Virginia. I also want to thank Mr. Austin for rearranging his schedule so I could be here today.

Mr. Chairman, I have a particularly strong interest in this proposed legislation. Thousands of my constituents in Northern Virginia work at Federal facilities all over the Washington metropolitan area. GSA decisions on where to locate major Federal facilities, such as ten of the twenty-one listed in this proposal, have a major impact on the daily lives of many Virginians.

First of all, I'd like to say that I support the general purpose of GSA's proposal. I don't think there is any question that, for certain facilities, government ownership is less expensive than leasing. There is also no question that current budget constraints limit GSA's ability to acquire major new Federal buildings by traditional means.

I commend GSA for their efforts on this proposal which will allow the Federal government to move forward with these badly needed projects.

I have a couple of concerns I will raise with Mr. Austin at the appropriate time. There are at least two projects on the list that are to some extent already underway—the Navy in Crystal City and the U.S. Courthouse in Alexandria, Virginia. I will want to know, Mr. Austin, whether passage of this proposal would affect the progress of these two projects in any way.

Again, thank you Mr. Chairman for scheduling the hearing so I could be here. Mr. Austin, I look forward to hearing your testimony.

Senator MOYNIHAN. If I may just take a moment to say—it would be inappropriate to begin this hearing without acknowledging the extraordinary role of Mr. Austin's predecessor, Mr. Terrence Golden, who—working with this committee, I think it's fair to say, but the inspiration was altogether his—devised the lease to own technique.

It has been half a century or longer, depending on how you look at it, but the Federal Government has not been building buildings, and there were no prospects of our doing so in the present protracted fiscal crisis. Yet here we are. We have now let the contracts on the Judiciary Building, which will be the second building ever built by the Congress for the Court. That is all in place. I have sent to the members of the commission saying that the next business we conduct is to gather for the opening ceremonies.

The developer/contractor/architect has been let for the Federal Triangle Building. It will be I.M. Pei and Associates. That building will have two-thirds the floor space of the Pentagon.

Just yesterday the House passed a bill previously passed here which will allow for friendly condemnation of the Foley Square project in New York City where we will have a new courthouse and a new office building, a billion dollar project, with the land coming from the City of New York, to be owned by us. In 30 years time, we will own them.

We are not building temporary buildings. These are 100- or 150-year buildings at not one penny of cost with an immediate saving

because the rents are lower than commercial rents. We will move people out of rented property into soon to be federally owned space.

Mr. Austin, welcome. I just wanted to say that you are here, as we all are, in the shadow of a very distinguished public servant, Mr. Terrence Golden. Why don't you summarize your statement? We will put the written statement in the record. Just tell us what you think we should know.

Senator WARNER. Mr. Chairman, if you would indulge me for one more minute.

I think that the historical perspective is an interesting one. You are too humble to mention this, but you have been the leader keeping this momentum going forward with building at a time of fiscal constraint.

There are always reasons not to build. I think that perhaps the most dramatic in our history was the War Between the States—and Lincoln continued to build the Capitol. You have that same determination to go forward in times of constraint.

Having said that, let's go ahead.

Senator MOYNIHAN. Sir.

STATEMENT OF RICHARD G. AUSTIN, ACTING ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION

Mr. AUSTIN. Mr. Chairman, let me submit my written statement—

Senator MOYNIHAN. Please do.

Mr. AUSTIN. Given the time constraints, let me go directly to the proposal itself and its substance.

As inconceivable as it might appear to be, GSA and OMB have reached an agreement on what we have now termed least-cost financing.

After reviewing the Federal Building Fund and the deficiencies existing there and being able to agree that over the next three to five years, funds would not be available out of the Federal Building Fund to do direct-appropriated construction projects, another option had to be sought out. As a result, the least-cost financing proposal came forward.

It actually contains three recommendations. The first recommendation is to raise up to 100 percent of the CPI, on an annualized basis, the rent we charge our tenants. That should generate over the next 10 years—

Senator MOYNIHAN. Why don't you just say that again slowly? We haven't the slightest idea what you said.

Mr. AUSTIN. I am sorry, sir. Right now we apply 25 percent of the CPI on an annualized basis—

Senator MOYNIHAN. Consumer Price Index?

Mr. AUSTIN. Yes, sir, to increase the rents charged to the user agencies. We have requested that we go to 100 percent of the CPI to the annualized rent base.

Senator MOYNIHAN. Mr. Austin, what are you talking about? Tell us what you mean. I gather that you are saying that each year, you provide space for Government agencies?

Mr. AUSTIN. Yes, sir.

Senator MOYNIHAN. And they in turn pay you rent?

Mr. AUSTIN. They pay us fair market value, yes sir.

Senator MOYNIHAN. Then this is adjusted each year?

Mr. AUSTIN. Yes, sir. I am sorry; I assumed——

Senator MOYNIHAN. Don't assume. I am not a GSA official. What are you trying to tell us? What is the meaning of this?

Mr. AUSTIN. What it means is that we will begin to augment the Federal Building Fund for costs that we incur——

Senator MOYNIHAN. By augment, do you mean increase?

Mr. AUSTIN. Increase——

Senator MOYNIHAN. Increase is a good word.

Mr. AUSTIN [continuing]. The Federal Building Fund, approximately \$145 million per year over the next 10 years. What that will go to, hopefully, within the next three to five years, is to add additional dollars to the Federal Building Fund that are currently not coming in and are being consumed by operating costs that we are incurring without recapture of those costs through the rent fund itself.

The second recommendation of the OMB/GSA study proposes the elimination of the rent caps that have been applied to the rents charged to certain agencies since 1975. What that is, sir, is that the Office of Management and Budget and the Congress have capped GSA's ability to obtain the appropriate income into the Fund.

They have capped us in terms of being able to charge fair market rates for the space occupied by agencies in certain areas. They have also directed GSA to specifically lower rents for certain agencies, below market rate, in certain areas. That has created a loss to the Federal Building Fund over the last 14 years of approximately \$2.4 billion, and in actual dollars in 1989, approximately \$3.8 billion.

It is believed that if we are able to charge full rent, full market value rent, uncapped, across the board, we will increase income into the Federal Building Fund by approximately \$75 million per year.

Senator MOYNIHAN. Mr. Austin, because of the special day, we have only a certain amount of time. We can come back.

You are talking about internal bookkeeping in the Federal Government, correct?

Mr. AUSTIN. In essence, yes, sir.

Senator MOYNIHAN. It's just internal bookkeeping. If you have increased here, you have decreased there. It hasn't made a bit of difference.

How much rent do you pay each year?

Mr. AUSTIN. Approximately \$1.8 billion.

Senator MOYNIHAN. You pay \$1.8 billion. That is a lot of rent.

Mr. AUSTIN. Yes, sir.

Senator MOYNIHAN. And you propose to build 21 new buildings along the lease-to-own basis that we have worked out and have in place now?

Mr. AUSTIN. Yes, sir.

Senator MOYNIHAN. That will produce how much floor space?

Mr. AUSTIN. Approximately 11.5 million square feet.

Senator MOYNIHAN. Don't say approximately 11.5—we assume it is approximate. We are just trying to get a figure.

How much do you rent now?

Mr. AUSTIN. The total is 232 million square feet, nationwide.

Senator MOYNIHAN. So this would only be about a five percent addition?

Mr. AUSTIN. Yes, sir.

Senator MOYNIHAN. So we are not breaking out of the renting mode?

Mr. AUSTIN. No sir, not at all. Of the 11.5 million square feet, 60 percent of that will actually come out of leased space.

Senator MOYNIHAN. And typically, you will do so at a lesser cost right away, will you not?

Mr. AUSTIN. Yes, sir. We have experienced, most specifically in Chicago, through the lease/purchase option there, a 600,000 square foot building. We are looking at a rental rate there of about \$38 per square foot. Current market rates are already into \$40 there. The \$38 rate will be locked in for 30 years.

Senator MOYNIHAN. So I can say to my friend from Virginia that what we seem to experience—we seem to have this in hand now—is that right off, you begin saving money. Then in 30 years time, you own the place.

The great utility is when you already own the land. We own the land for the Judiciary Building and the Federal Triangle, and in New York City, the City is selling us the land.

Do we own the land in Chicago?

Mr. AUSTIN. We will own the land. We did a lease/design/construct project there.

Senator MOYNIHAN. We will own it in the end?

Mr. AUSTIN. Yes, sir.

Senator MOYNIHAN. Tell us what the buildings are that you are most interested in here.

Mr. AUSTIN. Sir, we are actually interested in all 21 of the buildings.

Senator MOYNIHAN. Of course.

Senator WARNER. As you go through, the main Navy has been a quest of mine for seven years. I believe we have removed the legislative roadblocks on that. And the courthouse in Alexandria—if you could touch on those two.

Senator MOYNIHAN. Why don't you start out with the two of them?

Mr. AUSTIN. Both projects are inclusive in the bill, and we are looking forward to moving forward on them.

Senator MOYNIHAN. Mr. Austin, we have one of those Government forms here. You really have to love the Constitution to love this sort of thing. It is, "NCRIRS." I assume that is Internal Revenue Service, but you could have given us a list that said, "Here are 21 good buildings and let me tell you what they are."

Mr. AUSTIN. Senator, I am not sure what list you have. I apologize if it is confusing.

Senator MOYNIHAN. Just an incomprehensible list—"MENLO, PK, CA, 2 BLDGS." This is why, among other things, that your bureaucracy was not able to move for 50 years until Terrence Golden came along from Trammel Crowe.

You are a very fine representative of that bureaucracy, but break out of that mode. Speak English and describe the things.

Mr. AUSTIN. Yes, sir. Let me answer Senator Warner's question.

In terms of the Alexandria Court project, we are looking at building a 150,000-square-foot court facility in Alexandria. It is a Courts expansion project and the projected cost is approximately \$33.4 million.

Senator MOYNIHAN. That is the one that says, "**ALEX., VA CT." Now, is that in Virginia and Connecticut?

Senator WARNER. I think it is Virginia Court.

Senator MOYNIHAN. Virginia Court. This is gibberish, and you ought not to come to a committee that likes you and wants to help you with gibberish. You have not given us a single description of these 21 buildings.

Mr. AUSTIN. We have a clearer description of what we are talking about, Senator, if we may present that to you.

Senator MOYNIHAN. It would not be very clear if it were simply clearer than this.

Mr. AUSTIN. Yes, sir.

Senator MOYNIHAN. I want to welcome Senator Lieberman.

Senator LIEBERMAN. Thank you, Mr. Chairman.

Senator MOYNIHAN. Under Mr. Austin's predecessor, Mr. Terrence Golden, we finally developed a way to break out of the fact that we have not built any new buildings for almost half a century. One crisis followed another, and Mr. Golden, who was Executive Vice Chairman of Trammel Crowe, devised a scheme which Senators Stafford and Chafee were very much interested in, whereby we lease to own.

We undertake with a developer/contractor/architect and they will build a building. It helps if we own the land but that is not necessary. We will rent it for 30 years and at the end of that time, we own it.

These are buildings of real consequence. Some of them are utilitarian and they are very important.

Just to the east of Union Station we are building the Judiciary Building, which will be the second building we have ever built for the Court and a very fine building. We are all in place on that. The contract has been let and the next function for our commission will be to go to the opening ceremonies.

Downtown at 14th Street, we are building the Federal Triangle Complex. I.M. Pei Associates has just been given the contract. It will have two-thirds the floor space of the Pentagon. Again, in 30 years time, we will own it completely. The immediate effect is that rentals are less than you are now paying because you own the land.

Senator LIEBERMAN. Thank you for that update, Mr. Chairman. We dealt with this somewhat when I was in the Connecticut State Government. It is clearly a better expenditure of the people's money—

Senator MOYNIHAN. Better than just rent. We pay \$1.8 billion in rent now.

Mr. AUSTIN. If I may, let me answer the second part of Senator Warner's question.

In Northern Virginia, the Naval Systems Command—this project will provide for site acquisition, construction of a facility to house the current employees of the Department of Defense Naval Systems Command, and provide for expansion space for 3,160 addition-

al employees to be hired by 1996. The major affected commands and related functions currently occupy approximately 2.2 million square feet of space in 20 leased facilities in Northern Virginia. We will consolidate that, Senator, down to one location of approximately three million square feet at a cost estimated at \$742 million.

Senator WARNER. Thank you, Mr. Chairman.

It should be noted at this point that the Chairman has had a very distinguished naval career.

Senator MOYNIHAN. It's about time someone did. At the time, they missed it. It just takes a Secretary of the Navy, but—

Mr. AUSTIN. Let me explain two important parts of the proposal, Mr. Chairman. It is a three-year authorization for 1991 to 1993. The aggregate total of the request is approximately \$3 billion; \$2.5 billion would actually be through the least-cost financing; \$500 million would be funded directly from the Federal Building Fund.

Also, through agreement with OMB, we are capping the interest on the notes to be financed at 75 basis points over the Treasury rate. It might be asked if we can do that. We have just recently done that on two separate projects. One was with the Architect of the Capitol at about 38 basis points.

Senator MOYNIHAN. We lucked out there. We got a very good price.

Mr. AUSTIN. Then on NARS, on their center in New Jersey.

Senator MOYNIHAN. No NARS—what are you talking about?

Mr. AUSTIN. I'm sorry.

Senator MOYNIHAN. You see, I don't know what you are talking about. Don't say NARS. That is why we have not been able to do anything. You talk language that is unintelligible; the people don't hear you. And OMB almost killed this enterprise two years ago, as you well know.

Mr. AUSTIN. Yes, sir.

Senator MOYNIHAN. NARS—you mean the National Archives?

Mr. AUSTIN. The National Archives.

Senator MOYNIHAN. Isn't that nice sounding? It is a good thing. It is where we keep the Constitution.

Mr. AUSTIN. Yes, sir.

The National Archives did their project at 45 basis points over the Treasury rate. So we believe that we can achieve the 75 basis points, as a cap, and still finance the projects across the board.

Senator MOYNIHAN. Is there anything that determines how that works out? We are a good client. If anybody can be depended upon to be around in 30 years time, I guess we can, and they are borrowing money to construct a viable operation, so 75 basis points should do it. We have experienced doing it at less, right?

Mr. AUSTIN. Yes, sir, considerably less.

Basically that is the proposal, Senator.

Senator MOYNIHAN. All right, sir. Some 10 years ago, we introduced the Public Buildings Act, which this committee worked on. We had an idea of moving away from renting.

I don't know if Senator Lieberman has had a chance to visit the suburban counties of Washington—

Senator LIEBERMAN. Very little.

Senator MOYNIHAN [continuing]. Where every time you get out to the land where there are white fences and horses and you see

something on the hillside that looks a little bit like Mount Vernon, that is a 30-year lease with the GSA for a rickety building on K Street. Every one of these leases is one Mount Vernon out there somewhere. It has been very poorly managed.

What we would hope that you would do is that we might see some general design standards in what you are doing. We have tried to set a pattern of competition.

President Kennedy wrote the guiding principles for Federal architecture. They are on one page and they are written in English.

Are you familiar with them, Mr. Austin?

Mr. AUSTIN. I am not familiar with this specific document, no.

Senator MOYNIHAN. Well, thanks a lot. They have been there for 25 years, and this is exactly what I want to talk about. This was done in 1962 for President Kennedy. He was concerned with design and with what buildings said about us.

Senator WARNER. Mr. Chairman, I think we should acknowledge that Mrs. Kennedy was also very much concerned with design.

Senator MOYNIHAN. Mrs. Kennedy also was very much concerned with design. We started out quoting Pericles' oration to the Athenians, which is, "We do not imitate, for we are a model for others."

The principles are no more than this: "The policy shall be to provide requisite and adequate facilities in an architectural style and form which is distinguished and which will reflect the dignity, enterprise, vigor, and stability of the American National Government. Major emphasis should be placed on the choice of designs that embody the finest contemporary American architectural thought."

Then second, "The development of an official style must be avoided. Design must flow from the architectural profession to the Government and not vice versa."

These have been in place, sir, and a commission was set up to review them about 10 years ago, which decided not to change them at all. We say two things: we want architectural style, work of the first quality, and we want it to be contemporary. We mean to be around here a long time and the idea is that you get the good with the bad.

When pressed about what I had intended by this in 1964, I think I said, "At any given time, build whatever the Whiskey Trust is building, and over the centuries, you will do pretty well." We missed the entire period of classical American modernism in this city.

Mr. AUSTIN. If I may, Senator, let me say that it is our intent to do what we call a designed-build, which allows for competition for the design by the prospective contractors.

Senator MOYNIHAN. That is specified in these architectural principles laid down a quarter-century ago by an American President. And you never heard of them?

Mr. AUSTIN. I have not seen that document, no.

Senator MOYNIHAN. Not seen that document—I didn't ask you that. All right.

Ask yourself how you could come here with that? This is a little bit worrisome.

We are going to want to see these architectural principles. Bill Diamond is marvelous at this up in New York. You should have

seen the seven models we had for the Federal Triangle project. They were superb. And for the Judiciary Building, most of the major architects competed.

Mr. AUSTIN. Through designed-build, Senator, that is exactly what we have. We have competition with models.

Senator MOYNIHAN. That is one other thing, and I wonder if my colleagues would not agree with me on this?

Right now, the choice of design is a secret. It is a form of procurement and it works under rules that were set up for the Pentagon. A Senator has to sign a piece of paper before he can see the model, and he swears not to tell anybody, and if so, he can go to jail or something. It is as if we were selling jet engines.

I saw a PBS show the other night about how Chicago went about designing its new public library. It was a public affair. They said, "Here are the models. Everybody come down and look to see what you think and then tell the board." If you think there is anywhere that the public ought to have a say, it is in how public buildings will look.

Right now, it is an absolute secret until finally you get the end result with no change possible. This is done to deal with problems of irregularity in contract bidding.

I think we might consider changing that, don't you?

Senator LIEBERMAN. Yes, sir.

Senator MOYNIHAN. The Chief Justice really picked the design for the Judiciary Building, but then we put all five models on display at the Building Museum, and they are very impressive. I think we should think about that.

Senator WARNER. Mr. Chairman, greatness often evolves from that process. I had a role in the selection of the Vietnam Veterans' Memorial design, and it was highly controversial. But we displayed all of the various options for some time to allow the public to have a voice, and out of that came this most unique design which has certainly stood the test of time.

Senator MOYNIHAN. It is the most striking architectural statement of this age.

We are not, after all, letting a contract for munitions or something like that. If these things are right, then they are right for a very long time, and if they are wrong, like the building we are in, then you are going to be wrong for a very long time.

Mr. Austin, do you get some feeling of what we are thinking here?

Mr. AUSTIN. Yes sir, I clearly do.

Senator MOYNIHAN. Who is your chief officer on matters of architectural design?

Mr. AUSTIN. It would come from the Public Building Service.

Senator MOYNIHAN. Is anyone here from the Public Building Service?

Mr. AUSTIN. Sir, we are having a Partnership-in-Administration conference in Baltimore where all the Federal agencies are coming in to sit down and meet with us in terms of policies, procedures, goals, and objectives. In fact, I came back from Baltimore to be here this morning.

Senator MOYNIHAN. Our purpose here was just to get to know you a bit better; to say that we are very responsive to this and that

the Federal Government needs this. I think that Senators Warner and Lieberman would agree that this is good public policy and we need these properties. I do not think we should consider taking it up until the next session.

I have a letter here from Mr. Robert Peck, who has concerned himself very much with these matters over the years. I would like to include it in the record at this point.

[The letter referred to follows:]

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November 2, 1989

Honorable Daniel Patrick Moynihan
 United States Senate
 464 Russell Senate Office Building
 Washington, D.C. 20510

Re: GSA Public Buildings Program

Dear Senator:

I have been thinking that the time just may be right for a renewed effort to reform the GSA buildings program. You have surely seen the GSA proposal for a lease-purchase program; I am told that OMB has finally blessed the idea. GAO has reported, again, that leasing Federal office space is less economical than construction and lease-purchase. And the staff on the House side has undergone significant change.

You introduced your Public Buildings Act (S. 2080, 96th Congress) almost exactly a decade ago (December of 1979, if memory serves). Reducing GSA's over-reliance on leasing was one of its key principles. The bill contained other ideas, too, that are still timely. It would be a pity to start up a large new building program without requiring GSA to conduct systematic planning, or establishing general design standards, or improving the congressional authorizing process -- all initiatives that were in S. 2080 and the similar bills in succeeding Congresses.

If you think this worth re-visiting, I would be happy to help from the sidelines.

On another note, isn't it intriguing to see how public works, so belittled in good times, becomes so riveting an issue come a catastrophe?

Sincerely,



Bob Peck

Senator MOYNIHAN. I think we should have in mind working together to produce a bill. Have you talked with our counterparts in the House?

Mr. AUSTIN. Yes sir, we have talked with Chairman Bosco and Minority Member Petri, and we have also briefed the other members of the House Public Works Committee.

Senator MOYNIHAN. Senator Lieberman, you have not had a chance to talk at all since I have been rattling away.

**OPENING STATEMENT OF HON. JOSEPH I. LIEBERMAN, U.S.
SENATOR FROM THE STATE OF CONNECTICUT**

Senator LIEBERMAN. It has been a pleasure to listen to you, Mr. Chairman. I have an opening statement which I ask be included in the record. It basically expresses my enthusiasm for both the lease/purchase approach and my standing by the Chairman in holding up the importance of design in these facilities and my raising the hope that the lease/purchase concept will allow for historic rehabilitation in some of the approaches made.

I think you are absolutely right, Mr. Chairman. This is really the public's business. If I may use a homey analogy—I never get involved in the selection of furniture for my home, but when my wife brings something home that I do not like, I get angry. I think the public may have the same reaction to public buildings. They tend not to get involved, but they have very decided opinions, pro or con, good or bad, happy or unhappy, when something goes up. They understand that when you fill a public space, you are making a statement that matters to them.

Senator MOYNIHAN. That is what they will remember you for. A young person goes around the world looking at buildings that the government built generations before.

Senator WARNER. And after all, they pay for it.

Senator LIEBERMAN. That's right.

[Senator Lieberman's statement follows:]

**OPENING STATEMENT OF HON. JOSEPH I. LIEBERMAN, U.S. SENATOR FROM THE STATE
OF CONNECTICUT**

Thank you, Mr. Chairman. I applaud your long-standing commitment to architectural integrity and wise city planning, and I am honored to join you today as this committee reviews what promises to be a breakthrough in the too-long struggle to adequately address our Federal building needs.

For far too long the U.S. taxpayer has subsidized leases for Federal workspace in Washington, D.C., without the long-term benefits possible in this powerful real estate market. I am heartened by the GSA-OMB REPORT we have before us because it allows for the taxpayer to get a return on his investment; and it favors long-term fiscal responsibility over the short-term quick-fix. It's ironic, but the Federal Government's present policy of leasing space for its agencies suggests that we are loathe to make an investment in the quality of our services or personnel as if we weren't sure there'd be a government in ten or twenty years, as if 200-plus years of Democracy were simply an experiment.

The recommendations of the GSA/OMB taskforce suggest just the opposite, and they highlight the wisdom of investment—both financial and personal. In addition, their recommendations suggest an opportunity to enhance the quality of architecture and living-space in the Nation's capital.

I thank my distinguished Chairman for calling this hearing.

Senator MOYNIHAN. We have our quorum call now.

Mr. Austin, we will be in touch with you, and we would like to see if we can get a good piece of general legislation to put in first thing next year.

Senators Burdick and Chafee have questions which will be submitted to you and included in the record. A statement from Senator Chafee will also be included in the record.

[Senator Chafee's statement follows:]

OPENING STATEMENT OF HON. JOHN H. CHAFEE, U.S. SENATOR FROM THE STATE OF RHODE ISLAND

Mr. Chairman, this morning the General Services Administration (GSA) will present the recommendations of its joint task force with the Office of Management and Budget (OMB) on the Federal Government's space requirements, the status of funds available through the Federal Buildings Fund to meet those needs, and alternative financing policies.

I commend both GSA and OMB for convening the task force. It is evident that the Federal Government must explore various methods of building acquisition if it is going to replace its aging inventory and provide quality work space for Federal employees. As you know, GSA has advised Congress that the cost of currently leased office space will increase substantially in the next few years, rising to almost \$2 billion in the mid to late 1990's. The increase will result in part from inflation, rising service and utility costs and more importantly, the market value of new leases.

This is not to say that the Federal Government should own every building it occupies. But certainly if the requirement for space involves a Federal function whose mission, delivery of services and location makes it unlikely that a different building would be needed in the foreseeable future, then the government should explore the ownership option. I know this Committee is especially interested in assisting the GSA in providing quality headquarters space for the Environmental Protection Agency and the Department of Transportation.

Unfortunately, in recent years, GSA has had little flexibility in providing space. And that is due primarily to two factors. First, the Federal Buildings Fund does not generate an adequate level of funding to provide for long term space requirements. Second, because the government is faced with large up-front budgeted costs in new construction, leasing becomes an attractive alternative since only one year's lease costs need be recorded in a given year.

The time has come, however, to look at the financing of this Nation's infrastructure, and especially our public buildings in a long-term perspective. The proposal that GSA has brought forward to finance the government's immediate space needs is an innovative one, yet again there is a real need to determine the systematic program for the cost-effective construction and leasing of Federal space.

Mr. Austin, we thank you and your associates. Next time, make sure someone from the Public Buildings Office is with you. Just don't come here without them, okay?

Mr. AUSTIN. Yes, sir.

Senator MOYNIHAN. The record will be open for 30 days for any additional statements.

This hearing is adjourned.

[Whereupon, at 10:03 a.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

[Mr. Austin's written statement, responses to additional questions, and the Federal Real Property Study follow:]

STATEMENT OF RICHARD G. AUSTIN
ACTING ADMINISTRATOR
GENERAL SERVICES ADMINISTRATION

SUBCOMMITTEE ON WATER RESOURCES,
TRANSPORTATION AND INFRASTRUCTURE
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
UNITED STATES SENATE

NOVEMBER 3, 1989

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

IT IS A PLEASURE TO APPEAR BEFORE YOU TODAY TO DISCUSS WHAT I BELIEVE IS THE MOST SIGNIFICANT PUBLIC BUILDINGS UNDERTAKING IN MORE THAN A DECADE. JUST OVER TWO MONTHS AGO THE JOINT GENERAL SERVICES ADMINISTRATION (GSA)-OFFICE OF MANAGEMENT AND BUDGET (OMB) TASK FORCE COMPLETED ITS STUDY OF GSA SPACE REQUIREMENTS AND THE AVAILABILITY AND ADEQUACY OF THE FEDERAL BUILDINGS FUND RESOURCES TO MEET THOSE REQUIREMENTS. I WOULD LIKE TO HIGHLIGHT THE RECOMMENDATIONS OF THE TASK FORCE STUDY AND THEN DISCUSS THE ACTIONS THAT ARE NEEDED TO IMPLEMENT THIS AMBITIOUS PROGRAM.

GSA'S REAL PROPERTY ACTIVITIES ARE ADMINISTERED BY ITS PUBLIC BUILDINGS SERVICE (PBS), WITH REAL ESTATE ASSETS CONSISTING OF 239 MILLION SQUARE FEET OF SPACE IN ALMOST 7,000 FEDERALLY OWNED AND LEASED BUILDINGS ACROSS THE COUNTRY. THE REAL PROPERTY ACTIVITIES CONDUCTED BY PBS ARE FINANCED BY THE FEDERAL BUILDINGS FUND (FBF). PBS CHARGES MARKET BASED RENTAL RATES TO OTHER FEDERAL AGENCIES IN RETURN FOR SPACE AND RELATED SERVICES. THESE CHARGES ARE REFERRED TO AS RENT. RENT PAYMENTS ARE VIRTUALLY THE

ONLY SOURCE OF REVENUE FOR THE FBF AND THUS THE SOURCE OF FINANCING FOR PBS'S OPERATING AND CAPITAL EXPENSES. THE TASK FORCE WAS ASKED TO EXAMINE THE VIABILITY OF THE FBF IN MEETING PBS'S SHORT-TERM AND LONG-TERM NEEDS.

THE TASK FORCE HAS RECOMMENDED TWO INITIATIVES THAT WILL PROVIDE INCREASED REVENUES TO THE FEDERAL BUILDINGS FUND AND THEREBY INCREASE OPPORTUNITIES FOR OWNERSHIP. FIRST, THE TASK FORCE RECOMMENDED THAT ANNUAL RENT ESCALATORS INCLUDE 100% OF THE CHANGE IN THE CONSUMER PRICE INDEX (CPI). CURRENTLY, GSA ESCALATES RENTS AT A RATE OF 25% OF THE CHANGE IN THE CPI. THIS RECOMMENDATION REQUIRES NO ACTION ON THE PART OF THE CONGRESS, SINCE IT CAN BE AUTHORIZED AND IMPLEMENTED BY THE EXECUTIVE BRANCH.

IT IS ESTIMATED THAT IMPLEMENTATION OF THIS RECOMMENDATION WILL ADD REVENUE TO THE FUND OF APPROXIMATELY \$32 MILLION IN FISCAL 1991, AND AN AVERAGE OF \$145 MILLION ANNUALLY OVER THE NEXT DECADE.

SECOND, THE TASK FORCE RECOMMENDED THAT RENT CAPS WHICH HAVE BEEN IMPOSED FOR SELECTED AGENCY ACCOUNTS BE LIFTED. SINCE 1975 RENT CAPS HAVE REDUCED FUND INCOME BY \$2.4 BILLION (\$3.8 BILLION IN 1989 DOLLARS). RENT CAPS WHICH ARE CURRENTLY BEING PROPOSED IN SEVERAL FISCAL 1990 APPROPRIATION BILLS WILL FURTHER REDUCE FUND INCOME IN FISCAL 1990 BY AN ESTIMATED \$75 MILLION. REDUCED FUNDING FROM RENT CAPS HAS HAD ITS GREATEST IMPACT ON THE CAPITAL

INVESTMENT ACTIVITIES, SEVERELY LIMITING OUR ABILITY TO FINANCE MAJOR REPAIR AND MODERNIZATION PROJECTS AND SIGNIFICANTLY DEFERRING BADLY NEEDED NEW CONSTRUCTION PROJECTS.

TRADITIONALLY, PBS HAS USED TWO PRIMARY METHODS OF ACQUIRING SPACE: DIRECT FEDERAL CONSTRUCTION AND LEASING. BUILDINGS ACQUIRED THROUGH DIRECT FEDERAL CONSTRUCTION ARE USUALLY FUNDED IN TOTAL AT THE BEGINNING OF THE PROJECT, DESIGNED TO THE GOVERNMENT'S SPECIFICATIONS, AND BUILT ON GOVERNMENT-OWNED LAND. LEASING USUALLY TAKES THE FORM OF A LONG-TERM (5 TO 20 YEAR) RIGHT TO OCCUPY AN EXISTING BUILDING ON THE LESSOR'S LAND IN RETURN FOR PERIODIC LEASE PAYMENTS. THERE ARE VARIATIONS ON THESE METHODS BASED ON CIRCUMSTANCE OF INDIVIDUAL SITUATIONS AND CONTRACTING TECHNIQUES, BUT THESE ARE THE BASIC METHODS. IN THE PAST, FUNDING SHORTAGES AND BUDGETARY ACCOUNTING PROCESSES HAVE FORCED PBS TO LEASE SPACE IN MANY CASES WHERE DIRECT FEDERAL CONSTRUCTION WOULD HAVE BEEN LESS EXPENSIVE IN THE LONG RUN. THE TASK FORCE WAS ASKED TO REVIEW AND RECOMMEND EFFECTIVE ALTERNATIVES TO BRING NEW FEDERALLY-OWNED SPACE INTO THE PBS INVENTORY.

THROUGH ITS PLANNING PROCESS, GSA HAS IDENTIFIED REQUIREMENTS FOR APPROXIMATELY \$3 BILLION IN FEDERAL CONSTRUCTION OVER THE NEXT THREE FISCAL YEARS. BASED UPON THE MISSIONS AND SERVICE DELIVERY APPROACHES OF THE FEDERAL TENANTS WHO WILL BE HOUSED IN THESE BUILDINGS, THE REQUIREMENTS REPRESENT A STABLE LONG-TERM NEED FOR SPACE IN SPECIFIC AREAS. INCLUDED ARE REQUIREMENTS FOR NEW

CONSOLIDATED HEADQUARTERS BUILDINGS FOR SEVERAL AGENCIES, AMONG THEM ENVIRONMENTAL PROTECTION AGENCY (EPA), THE DEPARTMENT OF THE NAVY AND GSA.

MR. CHAIRMAN, WE AT GSA APPRECIATE YOUR SUSTAINED INTEREST IN THE DESIGN AND CONSTRUCTION OF FEDERAL BUILDINGS AND IN EXPLORING CREATIVE METHODS FOR THEIR DEVELOPMENT. YOUR LEADERSHIP HAS BEEN DEMONSTRATED BY YOUR SPONSORSHIP OF THE FEDERAL TRIANGLE DEVELOPMENT ACT, THE JUDICIAL OFFICE BUILDING DEVELOPMENT ACT, AND THE AUTHORIZATION OF THE FOLEY SQUARE ANNEXES. WE HOPE THAT YOU AND THE SUBCOMMITTEE WILL ONCE AGAIN TAKE A LEADERSHIP ROLE IN MAKING THIS PROGRAM A REALITY.

THIS CONCLUDES MY FORMAL STATEMENT, AND I WILL BE PLEASED TO ANSWER ANY QUESTIONS THAT THE SUBCOMMITTEE MIGHT HAVE.

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ADMINISTRATOR
General Services Administration
Washington, DC 20408



November 24, 1989

The Honorable
Daniel Patrick Moynihan
Chairman, Subcommittee on
Water Resources, Transportation, and
Infrastructure
Committee on Environment and
Public Works
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Enclosed please find my answers to the questions that I was asked to provide for the record. If there are any additional questions that the subcommittee might have, please contact Michael J DeLoose, my Associate Administrator for Congressional Affairs. Mr. DeLoose can be reached at 566-0563.

Sincerely,

Richard G. Austin
Acting Administrator

Enclosure

**QUESTION FOR SENATOR QUENTIN M. BURDICK
SUBCOMMITTEE ON WATER RESOURCES, TRANSPORTATION,
AND INFRASTRUCTURE**

**Hearing on the public buildings program of the General
Service Administration**

Friday November 3, 1989

1. Steps GSA is taking to assure the stability of Federal buildings nationwide in the event of a major earthquake.

Policies and programs have been developed and issued to improve the stability of Federal buildings in the event of a major earthquake. GSA has required the construction of new facilities to meet the seismic design requirements of nationally recognized codes and existing buildings are evaluated and retrofitted to provide seismic strengthening in both structural and non-structural building elements.

2. Are new buildings coming into the inventory designed to resist major tremors.

It has been GSA policy since 1978 to design all new buildings, nationwide, to comply with the seismic safety requirements of the latest edition of the Uniform Building Code (UBC), which is the most stringent of the model building codes regarding seismic safety. In some areas GSA has added factors higher than code requirements for nonstructural components, such as partitions.

3. Is any program in place to retrofit old buildings to make them better able to resist earthquake?

A program has been in place for some time to retrofit buildings for seismic strengthening in risk areas. The United States is divided in seismic zones which take into account the underlying geologic structures and their potential impact on buildings. Our program requires a facility assessment to evaluate the structural capabilities of the existing building elements. Based on the results of this evaluation, projects to strengthen the structural components and to minimize damage to non-structural elements are programmed and accomplished. In fact, our fiscal year 1990 program includes design for earthquake resistance improvements at the Customhouse and Appraisers buildings in San Francisco, California.

4. Are different standards applied to buildings in different areas of the country?

The basic standard used by GSA, the Uniform Building Code, is applied to all facilities nationwide. However, the application of seismic structural standards within the overall code will vary from location to location throughout the country. These standards reflect local geologic structures and the expected severity of potential earthquakes in the six seismic zones.

QUESTION FOR THE RECORD FROM SENATOR CHAFFEE

QUESTION 1: Will the action to allow annual Rent escalators to reflect 100 percent of the Consumer Price Index and the lifting of Rent caps provide an adequate funding infusion to prevent future financial shortfalls in the Federal Buildings Fund?

ANSWER: If the Fund is permitted to function as intended, charging all tenants full commercial equivalency, it will generate a reasonable level of funding each year for new construction and building purchase. In addition, GSA will continue to review the rate setting process to ensure that it remains consistent with commercial practice. We do not, therefore, project that there would be future financial shortfalls in the Federal Buildings Fund unless some kind of abnormal demand were placed on the Fund, such as the requirement to satisfy extraordinary expansion requirements of particular agencies in a short timeframe, or the requirement to address an unexpected activity (such as asbestos and PCB abatement) across the entire building inventory. These kinds of abnormal situations would strain the resources of the Fund even under ideal financial conditions.

HEARING QUESTIONS
(Senator Chafee)

Question #2:

In October 1988, Congress authorized up to 1.4 million occupiable square feet for the new EPA Headquarters. The original GSA proposal called for a 1.1 million square foot facility. Does GSA intend to construct the 1.4 million square foot building that EPA says it requires?

Answer:

Although GSA's construction proposal for the EPA Headquarters provided 1.1 million occupiable square feet, GSA will build the 1.4 million occupiable square feet required by EPA or will site the building in such a way as to allow future expansion to 1.4 million occupiable square feet.

Question #3:

The proposed budget for the EPA facility is \$226 million. How much will GSA increase this estimate to reflect the likely cost of a 1.4 million square foot building?

Answer:

GSA is unable to determine a firm cost for an increased size in the EPA project. GSA is currently negotiating with EPA on their special requirements. When these negotiations are completed GSA will know the project cost.

Question #4:

As an agency, EPA should set examples in the areas of public health and environment. The new headquarters should reflect that and include technology assuring quality indoor air and energy efficiency. Has GSA discussed this approach with EPA?

Answer:

EPA has stated from the start of project discussion that they want to be on the leading edge in a technologically advanced building in the areas of energy efficiency and quality indoor air. GSA is currently negotiating with EPA regarding the types of special requirements, the cost, and the responsibility for funding such requirements.

Question #5:

What are the differences, if any, in the estimated cost per square foot of the new agency headquarters proposed for least-cost financing? If there are differences, how are they accounted for?

Answer:

GSA has not yet prepared a least-cost financing proposal for the EPA Headquarters. Any such proposal will reflect the size of the building and such special requirements as agreed to in negotiations with the agency. Those two factors would be at the basis of any difference in per square foot cost from GSA's original construction proposal.

Question #6:

Are all of the agencies in Washington, DC, which are likely to require new buildings included on the least-cost list?

Answer:

No, the projects for Washington, DC, proposed for acquisition through installment purchase contracts reflect major requirements the General Services Administration (GSA) has been working to satisfy for some time. The current leases for the tenants proposed to occupy these projects either will expire or will be extended to expire coincident with the proposed occupancy of new facilities.

The Federal Emergency Management Agency, the Federal Energy Regulatory Commission, and the Secret Service represent potential candidates for future projects in the mid-1990's when the leases for their current space are scheduled to expire.

In the absence of both least-cost financing authority and sufficient funds for direct Federal construction, GSA has proceeded with lease acquisitions for space requirements which otherwise could have been considered for Government ownership. The Small Business Administration, the Federal Communications Commission, and the National Aeronautics and Space Administration are examples of agencies which will be provided leased space, but whose future requirements might be met through installment purchase projects.

QUESTION FOR THE RECORD FROM SENATOR CHAPPE

QUESTION 7: If there are agencies in Washington, DC not included on the Least Cost list which will require new facilities, how will GSA finance them?

ANSWER: GSA believes that the proposed legislation covers all of the known requirements through fiscal year 1993. For additional needs arising beyond that timeframe, GSA would first study the various housing alternatives such as leasing, new construction, purchase or renovation of an existing building, to determine which solution is the most economical. If the study called for the acquisition of a new Government-owned facility, then GSA would determine whether it could fund the direct construction or purchase of a building within the revenues of the Federal Buildings Fund. If that is not a viable alternative given the demands on the Fund and the available revenues, GSA would be most likely to request additional financing authority.

Question #8:

Are any agencies not on the least cost list candidates for the Southeast Federal Center (SEFC)?

Answer:

The Federal Emergency Management Agency (FEMA) is a candidate for relocation to the SEFC, if there were authority to provide the agency a new facility through a least-cost financing arrangement. FEMA currently occupies leased space at 500 C Street, SW, in Washington, DC. Although the current lease at this location expires on August 16, 1991, the General Services Administration has proposed to continue leasing space for the agency at the present or a replacement location. If a least-cost financed project for FEMA were deemed viable and the Congress provided the necessary authorization for it, the term of the proposed replacement lease would be negotiated to expire coincident with occupancy of a new facility at SEFC. However, at the present time no agreement has been reached with FEMA regarding relocation to the SEFC. Consequently, GSA has made no proposal to provide the agency with a new facility at this location.

Question #9:

Are the costs of courtroom finishes (witness boxes, jury boxes, judges benches, etc.) included in the long-term least-cost financing of court facilities? If not, will lump sum costs strain the Courts' budget?

Answer:

The costs for above-standard court finishes are not included in the amount to be financed. It is longstanding GSA policy that only standard level space and services will be provided to GSA's tenant agencies in return for the commercial equivalent Rent payments that the agencies pay over time into the Federal Buildings Fund. Tenant agencies are required to reimburse GSA up-front for the cost of above-standard features and finishes because it is GSA's policy to pay for such above-standard features up-front in a lump sum.

We do not amortize the costs of above-standard features over the term of a lease, and we do not plan to finance these costs in our new projects for several reasons. First, it is more costly to the Federal Government over the long-term. Secondly, it could encourage tenant agencies to request non-essential special features because the annual impact on their budgets would be smaller. This would reduce the overall cost-effectiveness of Federal space. Finally, GSA cannot (and should not) require a tenant agency to remain in a specific block of space for the full term of the lease, or the term of the financing period. If the agency were to relocate before the end of the amortization period, the Federal Buildings Fund would continue to bear the costs without receiving compensating revenues. This would be detrimental to the financial health of the Fund.

The reimbursable costs will not be payable from the Courts all at the same time. Many of the reimbursables are associated with the finishes to the space, and therefore, will probably not be needed in fiscal year 1991. This will allow ample time for the Courts to budget for many of the costs in fiscal year 1992. GSA can structure the procurement with a contract for construction of the basic building with options for the buildout of the space. The reimbursables for basic building elements would be required early in the process, but the reimbursables for the finishes will not be necessary until it is time to exercise the buildout options.

10. Question:

What is the status of federal ownership of the courthouse in Old San Juan, Puerto Rico? Has the Administrative Office of the U.S. Courts expressed an interest in retaining the building?

Answer:

The courthouse was reported excess by the Public Buildings Service (PBS) in May 1988, subject to the relocation of the courts to the new courthouse at Hato Rey. That excessing action is currently "on hold." The report of excess by PBS is consistent with GSA's position which has, for several years, supported the disposal of the Old San Juan Courthouse. Because the action has been placed "on hold" due to the desires of the Administrative Office of the U.S. Courts (AOC), the Federal Property Resources Service (FPRS) has not yet declared the property surplus to the needs of the Government. (As a point of interest the Land Administration of the Commonwealth of Puerto Rico has expressed an interest in acquiring the building.)

As mentioned above, we are aware that the Judiciary opposes the closing of the Old Courthouse in San Juan. However, GSA has, for several years, consistently supported the disposal of the Old San Juan Courthouse based on the overall condition of the building and, in particular, the fire and life safety problems that exist. The fire safety items involve both the building systems and the building structure. While new building systems (electrical, elevators, sprinklers) could be installed if the building were completely vacated and renovated, replacement of these systems and resolution of the safety problems cannot be corrected in a cost effective manner.

The Corps of Engineers prepared a Building Evaluation Report for the AOC which indicated that the courthouse could be rehabilitated for the long-term use of the Courts for less than \$12 million. GSA has both internally and by independent contractor reviewed the BER prepared by the Corps of Engineers.

As can be seen from the attached chart, the difference in the "today's dollar" estimated construction cost (ECC) amounts between the Corps of Engineers' BER and the LeBron report is only \$839,936 (a less than 7 percent difference), excluding the amounts added in for initial space alterations (ISA's) and temporary relocation. The Corps did not include the ISA and relocation costs, but they must be incurred in order for the building to be renovated.

(2)

The chart, which lists the various estimates, including the BER prepared by the Corps of Engineers for the courts, shows that the ECC's, adjusted to what would be required at midpoint of construction, range from a low of \$18.6 million to a high of \$21.8 million, all within a 15 percent range. At this level of funding, we believe that should future requirements warrant it, our limited capital resources would be better spent on an annex to the Hato Rey facility where we can take advantage of the existing Government-owned site.

An A-104 Economic Analysis comparing the capital costs to repair and alter the courthouse with the costs of constructing a new facility indicates that the 30-year present value cost of the repair and alteration alternative is more costly than the new construction alternative.

In light of the fact that the existing facility at Hato Rey has sufficient space to house all of the agencies, except the U.S. Post Office, currently housed in the courthouse in Old San Juan, it remains our position that it would not be prudent to modernize the courthouse. We, therefore, intend to proceed with declaring the property excess to the needs of GSA. Appropriate covenants will be included in any disposal action to preserve the significant architectural features of this historic building.

Prepared by:
Office of Facility Planning
November 7, 1989

Comparison of Estimates for Repair and Alteration of the Courthouse in Old San Juan, Puerto Rico for the Long-Term Use of the Courts.

Work Area Designation	Work Area Title	CCF/BER Amount	Leifson Amount	GEA Amount
A	Grounds & Approaches	\$ 85,189	\$ 85,189	\$ 97,967
B	Building Exterior	893,506	838,372	1,027,532
C	Roofs	850,739	856,680	978,350
D	Building Interior	4,284,820	4,722,468	4,927,543
E	Plumbing	392,300	491,300	451,145
F	Electrical	1,929,471	2,017,018	2,218,892
G	HVAC	1,858,797	1,908,158	2,137,617
H	Handicapped Facilities	234,601	234,601	289,791
I	Environmental Control	0	0	0
J	Elevators	564,965	564,965	649,710
K	Fire Safety	785,318	970,891	903,116
	Subtotal	11,879,706	12,719,642	13,661,663
-	Initial Space Alterations	3,000,000	2,315,240	3,743,275
EC		14,879,706	15,034,882	17,404,938
	Contingencies (7%)	1,041,579	1,052,442	1,218,346
EC (Without Escalation)		\$15,921,285	\$16,087,324	\$18,623,284
-	Temporary Relocation (facility vacated during renovation)	1,200,000	1,732,000	1,200,000
		\$17,121,285	\$17,819,324	\$19,823,284

EC: Escalation at 4% for 4 years \$18,625,665 \$18,819,894 \$21,786,608
(Assumes FY92 Design Start)

Average EC without escalation \$17,242,844

11. Question:

What is GSA's position on the construction of a new courthouse facility for the 1st Circuit in Boston, Massachusetts?

Answer:

The General Services Administration (GSA) and the Administrative Office of the Courts (AOC) have been discussing this matter for approximately one year. In September of 1988, an 11(b) Report for Boston, Massachusetts was requested by a House Committee on Public Works and Transportation reso. 11(b).

Since the passage of the resolution, both the AOC and GSA have prepared and evaluated various alternatives for satisfying the Court's needs in Boston. The 11(b) report has been transmitted to the Office of Management and Budget (OMB) for review. Upon completion of OMB's review, and reconciliation of any comments they may have, the report will be transmitted to both the Senate Committee on Environment and Public Works and the House Committee on Public Works and Transportation.

QUESTION:

Mr. Austin, in past years the Committee has received from the General Services Administration a copy of the Public Buildings Service Building Inventory, which lists all buildings leased and owned by the agency throughout the Nation and territories. However, we have received no copies of the inventory since August 1989. would you please provide to the Committee as soon as possible an updated inventory.

ANSWER:

Attached is one copy of the PBS building inventory as of November 7, 1989. (Retained in committee files.)

Prepared by:
Office of Facility Planning
November 7, 1989

STATUS OF PROJECTS ALREADY UNDERWAY
(Senator Warner)

Question:

Mr. Austin, of the twenty-one projects listed in your proposal, several are already underway to some extent. Specifically, I am concerned with Navy space in Northern Virginia - for which a "solicitation for offers" has already been sent out, and the U.S. Courthouse in Alexandria, Virginia - for which plans are already being made. Would enactment of your proposal in any way affect the status of these two projects?

Answer:

Both of these projects, and especially Navy, require substantial resource commitments for their realization. Enactment of the legislation proposed by the General Services Administration (GSA) would establish the funding mechanism necessary to provide for eventual Government ownership of the facilities proposed.

The Navy Solicitation for Offers (SFO) requests that offerors include lease-to-ownership proposals for 20- and 30-year terms and also the quotation of a price to purchase the project upon substantial completion. The second option would require GSA to pursue independent financing alternatives. GSA's least-cost financing proposal is entirely compatible with the solicitation, and would provide the necessary authority for the approaches taken in the Navy SFO.

GSA has already requested funds to design the U.S. Courthouse in Alexandria, Virginia. Enactment of GSA's least-cost financing proposal and approval of a prospectus for the Alexandria project would provide the funding mechanism necessary for project completion. The timing and level of financing requested would complement the design work performed with appropriated funds.

AVAILABILITY OF BUILDINGS ON MARKET
(Senator Warner)

Question:

A recent "Washington Post" article referred to the current overcapacity of commercial office space in the Washington metropolitan area. Would your proposal allow the General Services Administration (GSA) the flexibility to pursue the possible cost advantages of a "least-cost" purchase of an existing building rather than building a new building?

Answer:

One provision of GSA's proposal, subsection 22(e), would authorize the Administrator to enter into agreements to provide financing for projects for which a contractor would erect buildings and improvements for the use of the United States. This subsection, as presently drafted, would preclude obtaining financing for the purchase of existing buildings.

GSA would not object to expansion of this authority to include existing buildings as well as buildings and improvements erected for Government use. However, GSA has proposed, in subsection 22(h), that installment purchase contract authority be applicable to 21 specified projects. Any existing buildings acquired through purchase contract authority, if GSA's proposal were modified, would have to meet all GSA standards and satisfy the requirements of the tenant agencies.

NEED FOR PROSPECTUS
(Senator Warner)

Section 2(f) of the proposal requires that a prospectus be submitted for review and approval by the Office of Management and Budget and be submitted in accordance with section 7 of the Public Buildings Act of 1959.

It would appear to me that this is already done in every case. Why is this provision necessary?

Answer: This provision is intended to acknowledge and affirm the roles of the Office of Management and Budget and the Public Works Committees in respectively approving and authorizing individual least-cost financing projects. The provision makes it clear that prospectuses are still required even though the potential projects are listed in this bill.

APPLICABILITY TO ALL EXECUTIVE AGENCIES
(Senator Warner)

Question:

Mr. Austin, Section 3 of the proposal gives GSA authority over "lease-purchase" acquisition of office space by any executive agency.

Could you please tell me the origin of this provision and why it is necessary.

Answer:

Section 3 provides GSA and the Public Works Committees, as the primary parties responsible for the acquisition of public buildings by the Federal Government, with an oversight role in respect to such lease purchase projects authorized outside of the normal process.

The proposal has been recently revised so that the requirement to submit a prospectus as required by the Public Buildings Act of 1959, as amended, will apply to acquisition of "public buildings" instead of acquisition of "office space." The term "public building" is already defined in the Public Buildings Act and it is consistent with GSA's responsibilities for real property acquisition. For example, the definition of this term in statute (40 U.S.C. 612) explicitly excludes buildings and construction projects on military installations, and includes Federal office buildings and courthouses.



Administrator
General Services Administration
Washington, DC 20405



September 7, 1989

The Honorable
Daniel P. Moynihan
Chairman
Subcommittee on Water Resources,
Transportation and Infrastructure
Committee on Environment
and Public Works
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

This summer the Office of Management and Budget (OMB) and the General Services Administration (GSA) initiated a review of the Federal Building needs, the status of funds available through the Federal Buildings Fund to meet those needs, and financing policies. We are pleased to report that we have addressed these issues through a joint task force and the task force has completed its work.

Having considered the task force recommendations, GSA and OMB have reached an agreement that a total of 21 projects, with a cost estimated to be about \$3.0 billion, are required to meet the space needs of the Federal Government controlled by GSA in the period 1991-1993. When compared to estimated revenues, there is a \$2.5 billion shortfall which will occur over the next 4 years. The task force developed a series of recommendations to both enhance funding and to provide "least-cost" financing mechanisms which will make possible the orderly progression of GSA's acquisition program. The task force recommendations include:

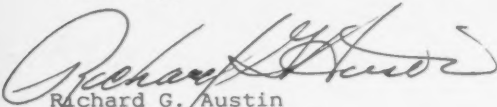
1. Administrative action to allow annual rent escalators to reflect 100 percent of the consumer price index.
2. Agreement with the Appropriations Committees to lift the rent caps (which had been imposed on selected agency accounts).
3. Legislation to authorize GSA to enter into "least-cost" financing mechanisms to meet the fiscal years 1991-1993 shortfall of up to \$2.5 billion.

-2-

Enclosed is the task force report which provides more specific information on these issues, including the framework for the "least-cost" financing program. We will submit a legislative proposal through OMB to the Congress and will cooperate fully in turning the program into a reality. I and my staff will be happy to meet

With best wishes.

Sincerely,

A handwritten signature in dark ink, appearing to read "Richard G. Austin", written in a cursive style.

Richard G. Austin
Acting Administrator

Enclosure

FEDERAL REAL PROPERTY STUDY

A. Introduction

The Office of Management and Budget and the General Services Administration each have responsibilities for the procurement and financing of Federal real estate. In this regard, there is a need to establish policies that will ensure that space requirements are met in the most economic and timely fashion. To address these overall considerations a joint task force consisting of GSA and OMB staff was formed. The objectives of the task force work were:

- o To provide an analysis of the real property currently controlled by GSA.
- o To examine GSA space requirements and determine present and future short-term and long-term needs.
- o To examine the availability and adequacy of funds to meet short-term and long-term needs.
- o To identify and analyze methods of space acquisition and financing techniques and to determine appropriate decisional criteria and controls for effective utilization of each method.

- o To recommend a plan of action to satisfy future requirements and assign responsibilities.

B. Background

GSA's real property activities are administered by its Public Buildings Service (PBS), with real estate assets consisting of 239 million square feet of space in almost 7,000 Government owned and leased buildings across the country. The real property activities conducted by PBS are financed by the Federal Buildings Fund (FBF). PBS charges market based rental rates to its tenant agencies that are called RENT charges (formerly called standard level user charges, SLUC). PBS uses the RENT receipts collected into the FBF to pay for all of its operating and capital expenses.

Traditionally, PBS has used two primary methods of acquiring space. These methods are direct Federal construction and leasing. Direct Federal construction is funded in total at the beginning of the project and the building is constructed on Government-owned land to the Government's specifications. Leasing usually takes the form of a long-term (5 to 20 years) right to occupy an existing building on the lessor's land in return for an annual rent payment. There are minor variations on these methods based upon the circumstances and contracting techniques but these two methods of acquisition are most common.

In order to determine which method of space acquisition will be pursued, PBS has developed a computer model which compares the costs of various housing alternatives according to the methodology prescribed by OMB in Circular A-104. However, regardless of the results of the economic analysis, in recent years FBF financial constraints have determined the method of acquisition. If the FBF cannot supply the necessary capital to initiate direct Federal construction then leasing becomes the only available option. Because Government ownership is generally less expensive than leasing, funding shortages have forced PBS to lease in many cases in which other methods of space acquisition would have been much less expensive in the long run.

In the past, there have been periods of under-funding of direct Federal construction for PBS as a result of restrained domestic capital spending during both the Korean and Vietnam conflicts. This led to an accumulation of backlogged construction projects. The result has been some form of congressionally approved "temporary" authority to fund such projects utilizing "off-budget" financing. In 1954, GSA received 3-year authority to enter into agreements with developers whereby a mortgage type debt instrument was used to build 23 buildings. Again in 1972, GSA was given 3-year "purchase contract" authority to finance the construction of 68 backlogged projects. GSA used private and

public placements for financing these projects until the Federal Financing Bank (FFB) began operations in 1974. The final 16 projects were then funded through the FFB by off-budget borrowing.

When the FBF was established in 1975, it was projected that the market based RENT income would be adequate to operate and maintain the existing inventory and to build new facilities for expansion and replacement requirements. However, over several years, budget policy decisions reduced the collection of RENT receipts from client agencies below commercial equivalent levels and the cumulative income reduction is \$2.4 billion since 1975 (\$3.8 billion in 1989 dollars). This reduced funding has had its greatest impact on the capital expense activities of PBS, resulting in a backlog of major repair and modernization projects in existing buildings and a significant deferral of new construction projects to meet long-term space requirements.

Starting in 1988, PBS has been allowed to collect market based RENT income from its client agencies with some exceptions. This permitted GSA to reduce the backlog of repair and alteration projects and, by 1991, that activity will be at a planned equilibrium level. However, current funding levels remain insufficient to meet new construction needs. In response to this need, in recent years (1987, 1988, and 1989 Appropriations Acts) Congress has authorized GSA to enter into "lease purchase"

contracts with developers for specific projects named in the legislation. Lease purchase contracts allow GSA to construct and obtain title to buildings with payments spread over a number of years (usually 30), obligating in each year only the lease (debt service) payment for that year. The legislative language specifically exempts these projects from the Anti-Deficiency Act requirements that the full amount of the contract be obligated at its initiation.

The remainder of this paper discusses the current inventory, foreseen future needs, and several alternatives for meeting future needs more responsibly and economically.

C. Current GSA Space Inventory

Although GSA provides special space to Federal agencies for courtrooms, laboratories, clinics, and the like, the greatest concern in this study is with office space.¹ Over the past 20 years, GSA controlled office space has grown from 87 million square feet (MSF) to 147 msf. A detailed analysis of the inventory is provided in Appendix III.*

¹ Most special space is provided in owned space. With the rapid growth in the Judiciary, court space has placed a significant demand on the FBF in recent years.

*Appendices to this study have been retained in committee files.

As the Federal Government has grown over the last 20 years, GSA has accommodated that growth primarily in leased space. As discussed in the introduction, this growth in leased space has partially been a result of insufficient capital available for GSA to build or buy buildings even when economic analysis has shown ownership to be the most economical alternative.

The increase of GSA office space over the past 20 years was never anticipated and it is doubtful that the FBF could have maintained its owned to leased space ratio (60:40) even if RENT had not been restricted. In practice, the operation of the FBF could hardly be expected to generate enough capital funds to accommodate such an expansion.

D. Future Space Requirements

Through its space planning process, GSA has identified and developed firm proposals for new construction projects (Appendix I) that total over \$3 billion in total project costs. As shown by the status of Federal Buildings Fund table (Appendix II), \$2.5 billion in requirements are unfunded. GSA would like to initiate these projects in the early 1990's to accommodate expansion requirements and expiring leases and to replace obsolete space to be eliminated from the inventory.

To decide how best to meet future office space needs, requests will be reviewed in terms of the length of need. To determine if a need is long- or short-term, criteria have been established which place the burden of proof on the demonstration that there is a long-term need for space in the community under consideration. If the case is not made convincingly, then the assumption is that the need is short-term. The OMB examining staff will be consulted to help confirm each agency's long-term need. The practical decision of ownership is not made on the condition of a single space request, but rather on the basis of each community and takes into account the flexibility provided by the owned/leased ratio in that community.

CATEGORY A: Long-Term Need

- o The requirement for space involves Federal functions whose mission, delivery of services, and location makes it highly unlikely that a different building will be needed in the next 20 years.
- o If the space is required for a headquarters operation, this criterion will carry some additional weight in substantiating long-term need, as articulated above.

CATEGORY B: Short-Term Need

- o There is an insufficient case for a long-term need as determined above.
- o Federal functions whose activities can be substituted in comparable office space at different locations without appreciable effect on mission.
- o There is a potential for obsolescence or major technological changes.
- o There is a possibility of steady, downward population trends in the proposed city.

- o There is a potential for reduced Government activity in the proposed city.

E. Analysis of Funds Availability

The obligations of the Federal Buildings Fund (FBF) are limited by the amount of income generated each year. Based upon the available RENT income, PBS must first pay its non-discretionary operating expenses such as utilities, cleaning, maintenance, lease payments to lessors, salaries and similar expenses related to the daily operation and maintenance of the existing inventory. The funds remaining after these operating expenses have been met become available for capital requirements such as rehabilitation of obsolete buildings, construction of new buildings, or purchase of existing buildings.

Appendix I, Status of the Federal Buildings Fund, presents a projection of the long-term income and operating expenses for the FBF. This table shows the total dollars available each year to accommodate major capital projects for PBS. Of this amount, an average of \$375 million will be required annually for major repair and alteration projects in order to keep the existing inventory in a good state of repair and functionality.

F. Solutions and Recommendations

The joint OMB and GSA task force has recommended the following actions be taken to meet the shortfall in the Federal Buildings Fund during the period from FY 1991 to 1993:

- o Administrative action to allow annual RENT escalators to reflect 100 percent of the Consumer Price Index. This solution requires Executive action which will be pursued in the FY 91 budget cycle. Heretofore, GSA RENT charges have been escalated annually at 25 percent of the change in the CPI and 100 percent of the change in operating expenses, with major adjustments every fifth year based on market reappraisals. The task force recognized the need to enhance income to the FBF and provide for a more consistent rental expense for client agencies (and a more continuous RENT income for GSA). By increasing annual RENT escalators to reflect 100 percent of the CPI, annual revenue for the FBF will increase by an average of \$145 million per year over the next decade.

- o Seek agreement with the Appropriation Committees to eliminate RENT caps placed on certain agencies in 1986. GSA has provided full space and service to the Department of Transportation, Agriculture, and related agencies although

their RENT appropriations are capped at less than market-based rates. Dollar for dollar, this money is taken from the GSA construction program. Elimination of these RENT caps would add an average of \$57 million in RENT revenue to the FBF each year for the next decade.²

- o Seek legislation to authorize GSA to enter into least-cost financing mechanisms (no more than 75 basis points above comparable Treasuries and subject to OMB case-by-case determinations that each such financing results in a net benefit to the Government) to meet projected deficits in FY 91, 92, and 93 of up to \$2.5 billion design and construction costs. Such legislation would also have to exempt these transactions from the Anti-Deficiency Act. As proposed, GSA and OMB will annually agree on revisions to the Status of Federal Buildings Fund table and list of known requirements (Appendix I). A decision to seek legislative authority beyond FY 1993 to enter into least-cost financing mechanisms will depend on GSA-OMB agreement on specific long-term needs based on the annual review.

²

Trust fund agencies, such as the Social Security Administration, pay RENT charges equal to the cost of the space instead of a market-equivalent rate. RENT payments by these agencies are simply a transfer of money from one trust fund to another. Because of the nature of the revenue source for these agencies, they have not been included in this recommendation by the task force.